

Don't Pay to Borrow Your Own Money

The Risks and Costs of Tax Refund Anticipation Loans

The "Tax Refund" That Really Isn't One: It's a Refund Anticipation Loan

How would you like to pay a super-high price to borrow money that already belongs to you? Sounds ridiculous, right? But that's pretty much what happens to many folks at tax time in the crazy world of RALs, or refund anticipation loans.

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds." These ads will offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans.

When you get a RAL, you're borrowing against your own tax refund money. And RALs are often marketed to people who need money the most — low- and moderate-income workers who receive the Earned Income Tax Credit.

Don't Pay Triple-Digit Interest Rates to Borrow Your Own Refund

RALs are extremely expensive. Loan fees typically range from \$30 to \$90, which translates into Annual Percentage Rates (APRs) of about 60% to over 700%. If you paid those rates on all your borrowing you'd probably go broke! And all to get your tax refund just a few days earlier than you can

for free from the IRS. You're lining someone else's pockets with YOUR hard-earned money!

RAL fees, combined with tax preparation, electronic filing, and other fees, can end up eating away a big chunk of your refund.

RALs Can Be Hazardous to Your Financial Health

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in

partnership with a tax preparer, it must be repaid *even if the IRS denies or delays your refund, or your refund is smaller than expected*. If you don't pay back the RAL, the lender will take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

Example:

For a tax refund of \$2000, you might pay to get a RAL:

RAL loan fee:	\$75
Electronic filing fee:	\$40
Combine that with the fee you will need to pay to the tax preparer:	\$100
Total:	\$215

This is **over 10%** of your refund!

This RAL has an APR (Annual Percentage Rate) of **142%** if it beats the IRS by 10 days.

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Ways to Save At Tax Time

Here are ways to take a pass on that RAL – most folks don't need one – and save money at tax time:

E-File with Direct Deposit. File your tax return electronically (E-file) to speed up your refund. Tell the IRS to deposit the refund directly into your bank account – you provide your account number right on your tax return. You can get a refund in about 10 days this way – without paying one cent extra for a loan. Some of the free tax preparation programs (called "VITA" sites) can file taxes electronically. If you have internet access, you may be able to get free tax preparation and electronic filing at "www.icanefile.org".

Get a bank account. If you don't have a bank account, open one up to take advantage of direct deposit. You can use a savings account to receive your tax refund, and maybe save some of it for a down payment on a house or a car, or to build a nest egg.

Wait just a bit longer. Do you really have to get cash from your tax refund today? Can you wait a few weeks to save almost \$100? If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS. Don't take on a new expensive debt to pay an old bill.

Avoid check cashers. Check cashers charge an extra fee to cash RAL and tax refund checks. Some check cashers charge up to 7% to cash a RAL check – the average is about 3%. So if you receive a \$2,000 refund, it would cost you an av-

erage of \$60 to cash the RAL check – on top of the RAL and tax preparation fees. A smarter move is to use a bank account.

Save \$ and Avoid RALs – Use a VITA Site

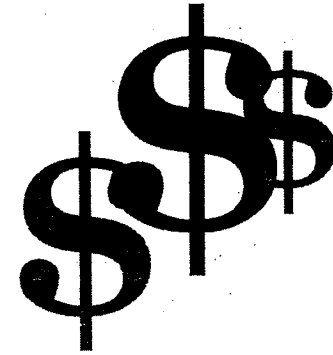
A great way to save money at tax time is to go to a Volunteer Income Tax Assistance (VITA) site. VITA sites provide free tax preparation to low- and moderate-income taxpayers. VITA sites are sponsored by the IRS and can be found in libraries, community centers, and other locations during tax time.

For the nearest VITA site, call the IRS general help line at 1-800-TAX-1040 or go to www.tax-coalition.org.

The following IRS Service Local Taxpayer Assistance Center can also provide free tax preparation and advice to low and moderate income taxpayers:

IRS Taxpayer Assistance Center
949 E. 36th Avenue
Anchorage, AK 99508

77 Summer Street • 10th Floor
Boston, MA 02110
(617) 542-8010
Fax: (617) 542-8028
www.consumerlaw.org



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